

Cryptocurrencies

Crypto-Mystery Clues Suggest Tether Has the Billions It Promised

By [Matthew Leising](#)

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As Tether grew into a multibillion-dollar engine of the cryptocurrency market, skeptics kept warning that the digital coin, whose main selling point is that it's pegged to the dollar, wasn't actually backed by an enormous pile of cash. Bank statements reviewed by Bloomberg News suggest those fears may be unfounded.

Statements spanning four separate months detail the cash held in Tether Ltd.'s accounts, according to documents reviewed by Bloomberg. At least some of the statements have been shared with regulators, people with knowledge of the matter said. The question is whether there really is \$1 in the bank for every Tether, and while the documents don't provide a complete accounting of Tether's finances, they do offer more detail than has ever been made public.

For example, one statement shows \$2.2 billion was in Tether's account at Puerto Rico's Noble Bank Ltd. on Jan. 31. That same day, 2.195 billion Tethers existed, according to data compiled by Coinmarketcap.com. The numbers also match up in September and October 2017. Tether and Bitfinex, a cryptocurrency exchange, are owned by the same executives. The bank statements show money flows between the two after Bitfinex became the only way to buy or sell Tether last year, according to the people familiar with the matter.

Worries about Tether are pervasive. Searching Google for "Is Tether a scam?" returns thousands of results. News stories have shown the cryptocurrency lacks transparency. The uproar grew when Bloomberg reported in January that the U.S. Commodity Futures Trading Commission issued subpoenas to Tether Ltd. and Bitfinex to check whether there was a cash stockpile.

The current status of the CFTC investigation into Tether's bank account couldn't be determined. CFTC spokeswoman Erica Elliot Richardson declined to comment.

Unanswered Questions

To be sure, the bank statements reviewed by Bloomberg don't show, for example, where the funds originated or where they are now. The statements were provided by someone with access to the company's records, and a government official confirmed their veracity. Tether and Bitfinex have had and lost a number of banks in their three-year history, including a group of Taiwanese lenders that dropped them after Wells Fargo & Co. cut its correspondent banking ties in 2017.

Stuart Hoegner, the general counsel for Tether and Bitfinex, declined to comment on the cash balances. Regarding the CFTC inquiry, he wrote in an email: "As a company that takes its legal and compliance obligations very seriously, we are not in a position to comment on the discussions we have nor to acknowledge the existence of subpoenas or similar legal requests."

Huge Implications

If there were no cash, the implications would be huge. At \$1.9 billion, Tether is the sixth-most-valuable cryptocurrency. And it's used in at least 30 percent of all Bitcoin transactions that take place on exchanges, based on estimates by Blockspur, a blockchain data analysis firm.

Tether is also a quasi-bank because many cryptoexchanges can't secure or keep bank accounts. Unlike U.S. dollars, which must be sent via correspondent banks, Tether can be conveyed anywhere in the world without the involvement of traditional financial institutions or governments.

Besides doubts over Tether's cash stockpile, there's a separate concern that it may be used to manipulate Bitcoin's price. The U.S. Justice Department is investigating whether Bitcoin's massive rally to \$20,000 last year was fueled by nefarious Tether trades, Bloomberg reported last month. As a result, even if regulators are satisfied Tether has all the money it says it has, that doesn't necessarily mean the company -- which has declined to comment on the inquiry -- has been completely cleared since there's the separate manipulation probe.

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Tether opened its Noble account in September 2017, expanding its balance from zero on Sept. 1 to \$392 million on Sept. 30, according to a statement reviewed by Bloomberg. That month, it also had \$60.9 million in customer cash at Bank of Montreal in an account under the name of Hoegner, the general counsel, according to an unredacted report by accounting firm Friedman LLP that Bloomberg also reviewed. That totals \$452.9 million. There were 435 million Tethers on Sept. 30, 2017. An attempt to contact Friedman wasn't returned.

The latest statement, from July 2018, shows a beginning balance of \$1.9 billion on July 1 and an ending amount of \$210 million on July 30. The balance dropped as the company shifted funds to Deltec Bank & Trust Ltd. in the Bahamas, according to people familiar with the matter. Attempts to reach Deltec and an attorney representing Noble weren't returned.

Big Changes

Losing the Taiwanese banks in early 2017 led to big changes at Tether. Executives decided to no longer allow the public to buy or sell Tether directly from Tether Ltd., as had been the case going back to 2015. After the change, only Bitfinex could buy or sell Tether from the issuer, and users would need to go through the exchange to get the stablecoin, according to the people familiar with the matter.

The demand for Tether skyrocketed as Bitcoin went on its run toward \$20,000. Its market value at the beginning of 2017 was about \$10 million; by the end of the year, it was \$1.3 billion. That meant huge amounts of money needed to move back and forth between Tether and Bitfinex, and this is where Noble played a key role.

That pattern shows up in the information Bloomberg reviewed. On July 6, Bitfinex sent 100 million digital coins to Tether Ltd., according to the blockchain. The same day, Tether paid Bitfinex \$100 million, a Noble bank statement shows. On July 20, \$50 million was exchanged for 50 million Tethers. On July 24, it was \$100 million for 100 million coins.

Another area of complaint among market users is that Tether promised official audits of its accounts, but never followed through. Instead, it twice released financial data, but both reports contained language explaining they weren't real audits. One in June was done by a firm co-founded by former FBI director Louis Freeh. Neither report released the type of details contained in the Noble bank statements that Bloomberg reviewed.

The internal processes at Noble may have provided proof that Tether held the money it claimed. That's because each time a Tether is issued or redeemed, it's publicly recorded on the Omni layer of the Bitcoin blockchain. These transactions were required by Noble as justification for moving money between the Tether and Bitfinex accounts, the people said. That created an audit trail that was presented to the CFTC once the subpoenas were issued, they said. Regulators spent about six months digging through the transactions, they said.

In a rare public display, Tether said on Nov. 1 that it held \$1.8 billion in Deltec Bank. The Noble bank statement shows a huge withdrawal of cash in July totaling \$1.37 billion from July 12 to July 20.

Another line in the bank statement shows how much money Tether was making from the cash pile. It had earned \$6.6 million in interest since the beginning of the year, according to the July document.

– With assistance by Yalixa Rivera, and Benjamin Bain

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